

# The Quarterly Review of COMMERCE

PHILIP H. HENSEL, M.B.A.  
LLOYD W. SIPHERD, M.B.A. { Consulting Editors  
WALTER A. THOMPSON, M.B.A. {  
THOMAS H. ORR—Managing Editor

Editorial Assistants:  
J. W. FORRISTAL F. C. BROWN  
J. L. DAMPIER—Business Manager R. FRASER—Circulation Manager  
E. G. AUST—Advertising Manager

---

Volume III

SPRING 1936

Number 3

---

## CONTENTS

Industrial Accounting an Essential to Management.....	97
Philip H. Hensel, M.B.A.	
Coverage of Certain Business Risks with Life Insurance.....	104
Orville Eadie, M.A.	
Through the Windows of the World.....	111
Arthur G. Dorland, Ph.D., F.R.S.C.	
The A. B. C. in Advertising.....	118
Gilbert C. Clarke, B.A.	
The Financing of Residential Buildings in Canada.....	125
Millard J. Grant	
Early History of Smallman & Ingram, Limited.....	131
J. Laurence Dampier	

---

## UNIVERSITY OF WESTERN ONTARIO

---

Published by the Commerce Club and The University Students' Commission. Subscriptions \$2.00 a year. Single Copies 60c. Address all communications to the Managing Editor, The Quarterly Review of Commerce, University of Western Ontario, London, Ontario

L

S

PR

36

MI

## CONTRIBUTORS

### PHILIP H. HENSEL, M.B.A.

Philip Hensel is Professor and Head of the Department of Business Administration at the University of Western Ontario. He is a graduate of North Eastern University, Boston University and the Harvard Graduate School of Business Administration.

### ORVILLE EADIE, M.A.

Orville Eadie received his Master of Arts degree in Economics and Finance from the University of Western Ontario in 1929 and then did post-graduate work at the University of Chicago. He has been with the London Life Insurance Company for seven years and is now in the Planning and Personnel Department.

### ARTHUR G. DORLAND, PH.D., F.R.S.C.

Arthur Dorland, whose commentary "Through the Windows of the World" appears in this issue, is Professor and Head of the Department of History at the University of Western Ontario.

### GILBERT C. CLARKE, B.A.

Since graduating in Business Administration from the University of Western Ontario in 1933, Gilbert Clarke has been working for the Kellogg Company of Canada, Limited. His article on "The A. B. C. in Advertising" is from the thesis being written in requirement for his Master of Arts degree.

## CONTRIBUTORS—Continued

## MILLARD J. GRANT

Millard Grant, who contributed the article on the new Dominion Housing Act, is a member of the law firm of Vining, Dyer and Grant, London.

## J. LAURENCE DAMPIER

Laurence Dampier has just completed the course in Business Administration at the University of Western Ontario. His article on Smallman and Ingram, Limited, is a synopsis of parts of a paper submitted this year in Business History.



## INDUSTRIAL ACCOUNTING AN ESSENTIAL TO MANAGEMENT

PHILIP H. HENSEL

**M**ANUFACTURE is the principal cause creating a demand for cost accounting, and a well-rounded system of industrial accounts furnishes the best barometer of business. Because of the inadequacy of transportation, early industry served local demands primarily. These demands were at first, on the whole, so much in excess of the possible supply of manufactured goods that the problem was to get suitable and effective equipment to increase production, with little or no concern for cost, except in so far as the total costs might exclude demand for the product through the economic law of comparative wants. With the increase in means of both communication and transportation, markets were broadened and costs probably became even a smaller factor in the scheme of supplying human needs and wants.

Then came the era of exploitation of natural resources with ample supplies of raw materials and little competition on account of unsatisfied demands. Following, and still a part of this period, came

an era of duplication and multiplication of manufacturers of the same goods, brought about by the development of trained men desiring to enter manufacture not as employees but as principals or entrepreneurs. For some time even then a knowledge of final results after inventory time seemed to satisfy the majority of manufacturers. Results were considered in the light of these final figures and the business was judged in periods of one year, either as a "good year" or a "poor year", with little regard to the effect of costs on the changing demands and competitive influences to which industry was being subjected.

Next was the advent of keener competition and a striving for improvement in methods, men, machinery and materials, which developed a demand for accurate information that could be supplied only through a more detailed and scientific division of expenditures and depreciating assets. This was the period of widening interest in cost accounting in the Dominion. A refinement and even some stan-

dardization of costs ensued and then came the war and the common use of cost-plus contracts to expedite agreement on the price of materials of all kinds urgently needed by the government, and as recognition of the uncertainty of costs under conditions of war and of greatly increased production.

Then followed the post-war period with better transportation, an increased number of competitive plants and productive facilities, over-production, cheap imports, diffusion of industry from seemingly established areas and improved methods of sales, advertising and distribution. This generation already sees the control by relatively few interests of the principal natural resources, the tendency towards mergers and consolidations in most of the basic industries and the reduction in margins of profits in many lines sufficient to provoke the now popular designation of "profitless prosperity".

The value of a cost accounting system may be measured directly in terms of the quality of information furnished, the clarity with which it is presented and the speed with which it is made available. The study of ancient history may be of some interest to posterity, but in relation to present results of business operations it is of little

value to an inquiring executive. The cost accountant has become of increasing importance as an aid to management and therefore needs a constantly increasing breadth of view and training.

Narrowly defined, the cost accountant is one employed in:

1. The design and installation of a cost and general accounting system.
2. The direction or operation of a cost-accounting system.
3. The preparation of cost-accounting reports, charts and statistics.
4. The compilation of general statistics, cost estimates, market data, etc.

Again, the scope of cost accounting, narrowly considered, embraces the analysis or breaking down of general accounting into detailed accounting of the costs:

1. By any classification of accounts;
2. By departments or processes;
3. By operations;
4. By finished products;
5. By assemblies, sub-assemblies and parts.

It is of most interest to consider the work for which the cost ac-

countant is trained, wherein he serves as an important aid to management, and the several divisions of this work will be considered in the following order:

The cost accountant as an aid to management in

1. Estimates of potential markets.
2. Estimates of costs of manufacture as a guide in determining plant capacities, equipment, working capital, etc.
3. Estimates of cost of construction.
4. Preparation of cost reports for use in:
  - (a) controlling expenditures through budgets,
  - (b) determining selling prices,
  - (c) determining profitable lines and individual products,
  - (d) cutting down overhead costs,
  - (e) finding leaks and improving methods.
5. Preparation of charts and data for use in reflecting sales, operating and financial data.

Among the first considerations in the establishment of an industry is that of the potential market for the product. Where the commodity is one in very general use, it is often possible for the cost accountant to obtain government statistics showing the production and consumption in the aggregate and by territories. More often it is necessary to obtain such information from trade journals or to calculate it conservatively from known factors upon which demand is based. Price, and therefore cost, is often the most important single consideration in the market that can be established for any product, and the cost accountant is of value in determining the effect of increased production on costs and resultant selling prices.

The study of potential markets for a new industry and the various other economic factors, including available capital, provide the basis for determining plant capacity. The capacity required dictates the machinery and equipment necessary, and the arrangement and layout of equipment for the best sequence of operations and lowest handling costs determine the type of construction and size of buildings. The flow of material, necessary labor classified by occupations and required overhead costs are then planned, and from these

data estimates must be made of the necessary working capital. In all of this the cost accountant's training fits him best to comprehend the problems and to supply most of the basic information on which final decisions are made by the management.

When financing is assured, the period of building construction ensues and then it is desirable, for the purpose of accurate valuation of properties, to keep detailed costs of the various building units by their composite parts. This is valuable because it relates to insurance, accurate depreciation, possible future additions and proper valuation. Some of the best work along this line has been built up by the interstate commerce commission in its valuation of railroads and its classification of construction accounts for common carriers.

As already mentioned, it is desirable in both the new and the established industry to determine as far as is practicable the expected sales for a future period of one year say, and from this to schedule manufacturing operations and budget their costs. These figures are set up as a satisfactory objective and as a guide to purchasing, hiring employees, or necessary production per dollar of labor costs, as well as a limitation on operating, selling and general expenditures.

Where selling prices are not wholly controlled by either established markets or competition, the cost accountant is responsible for the compilation of accurate costs with proper overhead distribution, on which are based the prices at which the products may be sold. Prior to the development of cost accounting, as it is now known, these costs often embraced the direct and easily obtained cost elements with a more or less antiquated and arbitrary percentage added for overhead, probably not in expectation of a proper allowance for depreciation on property or for other accruals such as taxes and insurance at their existing rates. Usually no attention was paid to the proper division over several different products. The continued use of such faulty bases for the establishment of prices invariably results in loss of profits and in some cases failure. Where the work of the cost accountant might avert such a condition his importance to management is obvious.

Trustworthy costs for the several products or lines manufactured are the greatest factor in policy determination relative to extending, controlling or discontinuing certain of these products. At the present time extensive cost studies are being made in a local manufacturing plant which pro-

duces four distinct lines and about one hundred individual products, to determine for the board of directors the profit or loss on the several products. This company has operated for years with an annual inventory and with only a general knowledge of the proportionate earnings in the different departments of the business. It is now believed by the board that the cost figures will show considerable loss on certain lines of merchandise and that their most profitable lines have been carrying this burden. It would be impossible for the management to form intelligent policies for this industry without the most careful work on the part of cost accountants, and these accountants know the importance of presenting an accurate report and the moment of the decisions that will depend on their report.

The proper classification of accounts will quickly reflect the relative importance of the various elements comprising the cost. This analysis detailing plant overhead, selling and administrative expenses and the percentage of each to total cost or selling prices provides an excellent basis for a management study. First of all, items must be classified if possible as fixed or variable. For instance, tax bases and insurance coverage,

once determined, are more or less fixed items of expense, whereas such items as general plant labor, power, sales and office salaries are to an extent variables and may be reduced. The cost accountant who is alive to his opportunities will not only prepare these analyses but will make use of them in calling to the attention of the proper officers possible savings in cost as indicated either by comparative costs of several periods or from personal observation.

Detailed studies of material and labor costs may often indicate leaks that would not come to the attention of the management otherwise, and labor studies when first made almost invariably point to possible improvements of methods in use.

The average cost department feels that when it has prepared well classified, neatly typed cost statements at the end of each month and has delivered them, its function has been properly performed and it has no further obligations other than answering specific inquiries, until the routine of the next month is carried through in very much the same way. From the viewpoint of the organization chart and the obligation that it assigns, the department is right. From the viewpoint of its importance to the industry it has delivered

ed about twenty-five per cent. of its total potential value. The majority of those actively engaged in cost work will agree that cost reports on the whole do not receive nearly the interest and attention that they merit from the persons for whom they are prepared. This is because the cost department possibly has not recognized the fact that everything, even a cost report, requires a certain amount of selling. In other words the reports must be presented in such a form that they will receive interest and attention.

The most effective way yet discovered to insure the effectiveness of cost reports is to present them in chart form. Even though the chart does not contain the information on which action can be taken, it can most effectively direct attention to cost tendencies. In other words it can act as an alarm and stimulate the mind more readily than figures alone.

There is an increasing trend toward:

1. Control of cost through standardization of products;
2. Control of cost through modern purchasing methods;
3. Control of costs through scheduling of production<sup>1</sup> or planning by operations;

4. Control of costs through the ever growing chain-belt assembly principle;

5. The displacement of cost accounting as the sole medium or agency for reduction of costs, through the development of methods 1 to 4.

The cost accountant should recognize these trends and keep abreast of the development. He should go even further by being a leader in advocating the adoption of these modern practices, for only through the adoption by his employers of modern costs and methods can he hope to be long identified with a successful industry.

There is a real demand in industry for the modern cost accountant. Referring back for a moment to the periods of industrial development, we might be said to have entered an era in which he has become an essential aid to management. His training and experience fit him to undertake the real problems of management.

Successful executives have long realized that cost keeping, or cost finding, is essential to business success and that it is not a theory, advanced by chartered accountants for their own particular aggrandizement, although to the untrained man cost accounting has long been shrouded in deepest mystery.

A logical conclusion, therefore, is that every industrial plant needs a reliable cost system to present regularly in an orderly manner the vital facts relating to the business, and to tell the story, week by week, of actual current business conditions, including exact costs of operations by divisions and departments of the business.

Leading executives in many lines

of business have recognized the value of uniform methods of accounting as a means of bringing together for intelligent discussion manufacturers who have common problems and common interests. The use of uniform cost-accounting methods will go far toward the elimination of unintelligent competition resulting from incomplete or unreliable costs.



## COVERAGE OF CERTAIN BUSINESS RISKS WITH LIFE INSURANCE

ORVILLE EADIE

**T**HERE is, perhaps, no other form of human endeavour which presents the multiplicity of risks that is attached to the conduct of a commercial enterprise, the fundamental purpose of which is pecuniary gain to the owner. Management must be constantly on the alert to protect against circumstances which would have a negative effect on the attainment of its object—the acquisition of profit. Organized exchanges are perhaps the most highly developed means of minimizing risks attendant upon price fluctuations, particularly in the milling and textile industries. In industries which do not offer hedging facilities on organized exchanges, management is always watching for factors which might affect its sales and strives at all times to maintain a proper balance between its sales forecasts and production and inventory. Business and statistical services, both governmental and private, are rendering definite assistance to management in forecasting trends of business activity so that action may be

taken to minimize loss and maximize gain. The hazards of fire, liability and dishonesty are insured against wherever possible. All these have been accepted aids to the proper conduct of commercial enterprises for many years, but hedging against loss of the effective producing power of the personnel through death, disability or loss of initiative is of comparatively recent origin. This is an ever present risk of major importance that can be effectively underwritten by the life insurance company.

Life insurance in its specific application to business may be divided into two definite classes:

1. Coverage of employees — workers, supervisors and minor executives.
2. Coverage of employers — major executives or the "management" class and owners.

In one major respect these two classes of coverage differ ma-



terially. Coverage of employees or the "worker" class is not designed in any way to reimburse the enterprise for loss of effective producing capacity. It is designed to minimize the preventable part of the loss—destruction of producing power through resignation, fear on the part of the employee of the disastrous result of disability or death, strikes or any of the other results attendant upon a recurrence of the age-old "capital-labor" strife—disloyalty, soldiering on the job and sabotage. Management must avail itself of any counteragent to these ills by developing a finer spirit of co-operation between the employee class and the management-employer class. This can be accomplished to an effective degree by Group Insurance.

The second class of coverage—Business Life Insurance—is applicable to the major executives or management class, is designed to reimburse the business for loss of effective producing power through death or disability. Personnel turnover within this class is considerably less than in the employee class. Strikes and sabotage are practically unheard of and soldiering on the job, where it does occur, takes the far more subtle form of lack of initiative which, as in the case of employee coverage, life insurance is designed to prevent.

### Group Coverage

Group Life, Sickness and Accident Insurance is the best known and most widely used application of the facilities of the life insurance company to business personnel. It is recognized by management as a most effective tool in reducing labor difficulties on the lower levels more particularly in regard to:

#### 1. Stimulation of Loyalty.

There is a pronounced feeling on the part of employees having Group Insurance that the firm is "playing the game" with them, especially if the plan in effect calls for payment by the company of a considerable portion of the premium. The feeling of enthusiasm and co-operation generated in this manner precludes development of much of the difficulty arising from a dissatisfied personnel.

#### 2. Reduction of Turnover in Labor Personnel.

This is particularly applicable where the amount of insurance varies with length of service and position. A man will not readily forego the advantage of insurance protection to his wife and family at the reduced cost of Group Insurance. Even if all firms had this form of coverage on their employees there would be a decided

tendency to stability of employment if a change necessitated lower insurance protection through loss of length of service. It is estimated that labor turnover costs business on this continent over a billion dollars a year. A company makes a definite and frequently considerable investment in a worker in the form of training cost which may be considered to be written off over a period of time as the worker increases in experience and efficiency. Other definite expenses connected with labor turnover are spoilage of materials by the new, inexperienced worker and the reduced rate of production during his training period.

### 3. Alleviation of Certain of the Employee's Financial Worries.

Worry destroys efficiency. If a worker foresees in his disablement, prematurely by accident or later on by enforced retirement through old age, his inability to provide his wife and family with the necessities and comforts of life—things which he is able to supply out of his weekly pay envelope while employed—the worry occasioned thereby may materially decrease his present productive power. If he foresees on his death his family destitute, unable through the meagre earnings of the widow to repay the mortgage on their home or give

children the education necessary to their proper start in life, his present efficiency and value to his employer may be considerably decreased. All these financial worries on the part of the employee can be covered by life insurance, but much more cheaply, and, therefore, more effectively, under a Group plan than is possible under an individual policy.

### 4. Attraction of Better Class of Workers.

Married men, sobered considerably by family responsibilities, are normally the most desirable employees. To them regular work and a steady income are essentials. To them also the benefits they and their families may derive from life insurance are most attractive. The company offering the advantages of Group Life, Sickness and Accident Insurance will appeal to this class of men as a most desirable place to work.

### 5. Release from Demands for Financial Relief of Employee's Family.

The death of an employee frequently leaves a family in dire need of financial assistance. The company for which the deceased employee worked is looked to for assistance and employers who realize their responsibility to their workers normally do all in their power to relieve the destitute

## COVERAGE OF CERTAIN BUSINESS RISKS WITH LIFE INSURANCE

107

family. Few companies are large enough to carry their own insurance fund to provide against such contingencies, especially if the occupational hazards of the industry are high or if an unforeseen epidemic should multiply the demands upon such a fund. Group coverage automatically takes care of the company's responsibility on a fair and equitable basis, the amount of indemnity depending upon position and length of service.

### 6. Satisfaction of Conscious Obligation of Socially-Minded Management.

In the case of many generous-hearted and socially-minded employers their sole purpose in placing Group Insurance on their employees is a paternalistic desire to help. Such a feeling on the part of management is to be highly commended. Under a Group Insurance plan, the employer is able to improve the condition of his employees very tangibly by placing definite and valuable benefits in the hands of their dependents.

### Business Life Insurance

The many and varied applications of this form of coverage are not so generally recognized. In general insurance technique it does not differ in any fundamental respect from Ordinary Life Insurance,

but its specific application to the solution of certain business problems has given it an individuality necessitating a descriptive title — Business Life Insurance. Some of its more important applications are discussed below.

### 1. To Provide a Sinking Fund for Retirement of Bond Issue or Mortgage.

Life Insurance presents a very satisfactory method of providing a sinking fund for the retirement of large outstanding obligations. An endowment policy for the term of the mortgage or bond issue should be placed on the life of the executive whose death would most seriously affect the company's ability to meet its maturing obligation. The provision for life insurance in mortgage indentures or bond agreements, where the bonds are callable upon the prior death of the specified executive, is becoming increasingly common, because of the recognition being given to this form of business protection by mortgage companies and investment bankers.

### 2. To Repay Bank Loans.

The value of insurance protection to creditors varies directly with the degree of liquidity required and the emphasis upon the character of the debtor. As a result,

banks frequently require life insurance protection for their loans, either through the assignment of personal insurance as collateral or the placing of Business Life Insurance in favor of the bank for the period of indebtedness.

### 3. To Liquidate Good Will.

This intangible source of profits in an organization is frequently the result of advantageous trade or public connections built up around the personality of one or more of the executives. If the organization must face the risk of losing all or part of its good will upon the death of certain individuals, it has an insurable interest in those individuals and should hedge against its loss by Business Life Insurance coverage. This risk is particularly applicable to retail or service enterprises or other small organizations built up by one or a few dominant figures still in control.

### 4. To Prevent Shrinkage of Assets.

Unless the proprietorship or partnership values its tangible assets at their forced sale market value, it is facing the risk of asset shrinkage should it be necessary to liquidate the business. In the case of a partnership, dissolution occurs at death of one of the partners and immediate realization upon the assets of the concern may be nec-

essary to settle the deceased partner's estate. Business Life Insurance places in the hands of a surviving partner the necessary capital to buy out the deceased partner's share of the business.

### 5. To Prevent Sale of Business to Give Proper Shares to Other Heirs.

If it is a business man's wish to leave his business, his share or his stock in the business to a son, he may so indicate in his will, leaving the balance of his estate to his widow or other relatives. If the interest in the business, however, is far more valuable than the balance of the estate, as is frequently the case, the will may be protested as being unfair to the other heirs. If the protest succeeds, the risk of asset shrinkage becomes a reality. Business Life Insurance provides the means whereby the proper share may be given to other heirs and the business remain intact for the designated beneficiary to carry on.

### 6. To Settle Succession Duties.

A business or valuable shares of stock may have to be thrown on the market at an inopportune time in order to settle the taxes on the estate of the deceased. Unless provision is made by Business Life Insurance to cover these taxes, enforced liquidation of business interests may be necessary, involving

## COVERAGE OF CERTAIN BUSINESS RISKS WITH LIFE INSURANCE

109

considerable loss and a complete miscarriage of the well-meaning intentions of the deceased benefactor.

### 7. To Enhance Credit.

Credit in any form is based on the assumption by the giver that the receiver will carry out his obligation. Trade credit is granted more readily, other factors being equal, to the concern adequately protected against unforeseen loss of an integral part of its management through death. In order to secure credit on the most satisfactory terms, it is necessary to eliminate all possible hazards and the inclusion of "Cash Value of Life Insurance on Major Executives" as an asset on the balance sheet is evidence that the company has made necessary provision for one of its hazards.

### 8. To Guarantee Continuity of Management.

In order to accomplish this effectively, it is necessary to arrange a plan whereby the major executives will be financially able to purchase the interest of the senior executive or major stockholder upon his prior death. The agreement may call for payment of the necessary premiums by the company or by the major executives or any combination of the two as the circum-

stances make advisable. Under such a plan, the estate of the deceased is paid at once and control passes to the surviving executives.

### 9. To Protect Against Loss of "Key Men".

Following the death of a major executive in a company there ensues a period of considerable stress and reorganization. The more important the executive in relation to the enterprise itself, the more severe will be that period of stress and the greater will be the possibility of loss of future credit, repayment demands from present creditors, withdrawal of major customers and public confidence and finally bankruptcy. The immediate payment to an enterprise of the proceeds of life insurance upon the death of a "key man" will minimize that loss of confidence and business during the period of internal reorganization.

### 10. To Stimulate Executive Enthusiasm.

Executives are apt, particularly in closely controlled companies, to lose their enthusiasm when it becomes evident to them that they can never hope to acquire control or at least partial ownership in the enterprise. A Business Life Insurance plan can be arranged to ensure the fulfilment of their ambition

upon the death of the major executive or to increase their own estate accordingly should he outlast them. This added stimulation to executives results in a finer co-operative spirit within the organization.

Today Business Life Insurance is becoming recognized as an effective tool of management. Together with Group Life, Sickness and Accident Insurance it is providing management with the means of effectively counteracting certain major risks connected with business per-

sonnel. New applications of the services of the life insurance company to eliminate business hazards are being discovered regularly, usually by aggressive life underwriters with broad training in the economics of business management. The day is approaching when such specialists will be retained on the staffs of business corporations in an advisory capacity to assist the management in reaching its goal—the minimization of loss and the maximization of gain.



## THROUGH THE WINDOWS OF THE WORLD

ARTHUR G. DORLAND

### Dictators and Diplomacy

THE control that Dictators exercise over national resources and policy is one of the advantages they enjoy in diplomacy that is denied free democratic nations like France and Great Britain. It is true that countries ruled by Dictators pay a heavy price economically and spiritually for this advantage, especially in the loss of personal freedom. But despite these losses, the gain is in the apparent solidarity which these countries present to the outside world, in contrast to the cross currents of opinion and conflicting views that confuse and blur the policies of democratic countries where different shades of opinion can be freely expressed. The censorship of the press under Fascist or Communist governments is, therefore, one of their most significant features, as it is essential that their peoples shall be led to believe what their governments wish them to believe.

This situation has served to complicate the present position of Great Britain in its attempt to act

as arbiter between France and Nazi Germany, as a result of the latter's recent violation of the Versailles Treaty and repudiation of the Treaty of Locarno by the invasion of the demilitarized area in the Rhineland. There has been in Great Britain a strong and growing feeling that Germany cannot be kept forever in that position of economic and political inferiority that the Treaty of Versailles sought to place her in; though this feeling is tempered by much sympathy with the French desire for security and with her claim that this most recent lawless action of Germany shall be repudiated with all the authority of the League and, if necessary, by action that will make clear the consequences of lawlessness. The principal difficulty inherent in this situation is, that while Great Britain is lukewarm in applying such a policy of coercion to Germany, France has shown an equal reluctance in respect to Italy and the Abyssinian question.

Herr Hitler has taken advantage of these conflicting currents of

opinion in both countries to execute his recent *coup* in the Rhineland, which has thrown the French into a frenzy of apprehension. Meanwhile, the German government by its censorship of the press seeks to establish the opinion in Germany that Great Britain is as sympathetic to German claims as France is hostile. To this end, quotations from speeches in the British parliament and articles in London papers are selected in such a way as to present only those passages that are favourable to Germany, and to omit all those that are in any way critical. The result is that the German people are deliberately drugged, and are ready to back their government to the limit, in the firm conviction that its policy is being backed by Great Britain. Nothing, of course, could be farther from the truth. Nevertheless, there are important elements of public opinion that British policy is bound to take into consideration, especially the opinion of the working classes and the trade unions. In a recent article Stephen Gwynn states the problem thus: "If the conscience of England were strongly moved, as it was in 1914, trade unionists would act again as they did then. But it does not seem conceivable that the marching of German troops into German territory should have the same effect on English minds as the marching of

them into Belgium. English statescraft must take account of working class feeling."

This commentary on an important element in British opinion is borne out by the following observation of "Janus" in the *Spectator*: "There are at least two very good reasons why this country cannot even contemplate armed intervention in the Rhineland. One is the strength of the feeling against any kind of war anywhere, the other the unexpected tendency of the average man to rebel against France's exigencies and condone Germany's treaty breaking. The tendency may be carried much too far, and take too little account of hard facts—but there is no question about its prevalence. As to pacifism generally, that too, has wider range and deeper roots than is generally realized. An incident at Manchester a few days ago is instructive. A peace demonstration, addressed by Mr. Lansbury, the Rev. Henry Carter and other "hundred per cent" pacifists, was to take place in the Free Trade Hall, which holds about 2,800 people. This building being crowded out, an overflow was held in the Albert Hall, capacity 2,300. Then the fairly capacious Friends' Meeting House had to be hastily requisitioned, and even so, according to the *Manchester Guardian*, hundreds of would-be demonstrators



must have failed to get in anywhere."

Nor can such demonstrations be regarded as peculiar to working class opinion, for in intellectual circles there is likewise a strong feeling that the attitude of men like George Lansbury is not only idealistic but practical. Professor Aldous Huxley, writing in *Time and Tide*, urges publicists and politicians to use more direct language in their discussions on peace and war. He reminds us that when the Church of England prayed to the Almighty for the victims of the Irish potato famine it used the words "succulent tuber," as "potato" was considered rather a vulgar word for the ears of the Deity. He therefore urges more realistic language so that politicians would recognize that "it was *wrong* for Smith to kill Schmidt, or for Braun to murder M. and Mme. Lebrun or Master Brown." According to Aldous Huxley, no politician except George Lansbury ever thinks of using the words "right" and "wrong" in speeches about war and re-armament; and he concludes his article by stating that "the only practical suggestion for the preparation of peace yet offered by a politician is that of George Lansbury." This body of opinion will undoubtedly influence the British Government in the orientation of its future policy.

On the other hand, there are in Great Britain serious doubts as to the sincerity of Herr Hitler's professions of peace, so that despite his suggestion that German might re-enter the League, and his offer to sign non-aggression pacts with France and Russia, as well as with the states bordering on Germany to the East, it is not unreasonable to ask that Herr Hitler shall take some constructive steps to diminish the suspicion which his latest repudiation of treaties has naturally aroused. There is a very strong feeling in Great Britain that one of the greatest obstacles to a good understanding with Germany, one of the major causes of diffidence concerning her proposed re-entry into the League, is her harsh treatment of the Jews and increasing interference in religious liberty. Not only is it intolerable that other countries, and especially those bordering upon Germany, should, despite their economic difficulties, be obliged to cope with a flood of refugees, but the knowledge that those personal and spiritual rights which Englishmen hold most dear are being daily violated by the German Government is a formidable obstacle to cordial co-operation. The real test of Herr Hitler will be his ability to rise above the tyranny of hate and suspicion in his own country in order to establish more cordial relations with Great Britain

which is, at the moment, in a position to do more for the recovery of Germany and for the peace of the world than any other country either within or without the League.

#### **Dictators and Academic Freedom**

The curtailment of academic freedom and of free thought since the advent of the Hitler regime in Germany has caused a steady decline of scholarship and learning in a country that at one time led the world. According to a competent observer and a fine scholar, "during the past three years some twenty per cent of the best teachers and ablest scholars of Germany have been dismissed. They include not only Jews but also any liberal professors who were thought to be lukewarm to Nazi doctrines. Sudden and unexplained transfers from one university to another produced a further feeling of uncertainty and insecurity. As a consequence, both the quality and quantity of the scholarly output in German scientific periodicals has shrunk to a shocking degree." As a result of the reduction in the number of university instructors, an attempt has been made to reduce by one-half the number of new students admitted to the universities each year, allowing not more than one-tenth to be women, for their place is in the home, ac-

cording to Nazi ideology. Moreover, selection of students to be admitted to the universities is based "partly on the report of the school principal and partly on the report of the local Nazi leader." Consequently, not only is the academic standing taken into consideration for admittance to the universities, but also "the record of the prospective candidate in Hitler Youth, and the half year of Labour Service, his qualities of leadership and his attitude toward Nazi doctrines. All students are expected to belong to a Nazi organization known as the National Socialist Student Body." Thus the collective social discipline of the totalitarian state is fastened upon the educational system of Germany to destroy all free thought. For in these countries it is the rule of the existing regime that teacher or student may not proclaim the truth he sees, but must accept the assumptions of that regime or withdraw entirely from academic life.

#### **Free Thought in Democracies Today**

While we who are so fortunate as to be living in democratic countries may congratulate ourselves on the possession of those personal liberties of free thought and speech that are denied in Fascist or Communist states, we may well be disturbed by the progressive

limitation of these fundamental rights within many of the so-called democratic countries today. For, at a time when apparently widespread social and economic changes are impending, there is always the danger, even in so-called democratic states, that those who have power in their hands and who benefit by maintaining the *status quo* should seek to make sure that "sound" views are promoted; but inevitably they equate "sound" views with those which they themselves hold and with those institutions that tend to maintain their position in the existing political and social frame work. Even in Great Britain, where the tradition of academic freedom is stronger than in any other country in the world, attempts have been made to curb academic freedom. Professor Harold J. Laski, for example, cites "a recent controversy in which the member of Parliament for the University of London suggested a reduction in the grant to one of its constituent colleges in order to bring pressure upon its governors to choose teachers of non-socialist opinions. Business men write to heads of colleges complaining of professional articles and speeches which criticize beliefs they hold; and they threaten to withhold funds if such criticism continue. University officials rarely interfere directly with their teachers. But

some of them are weak enough to urge silence upon them lest the future of the institution be jeopardized."

The United States has, however, provided some of the most disquieting examples of attempts to control academic freedom in recent times. The University of Pittsburgh—the forty-story skyscraper or "Cathedral of Learning"—which was founded in the late twenties with a high-pressure collection campaign reminiscent of a Florida real estate boom, may first be cited as an illustration of the determination of big business to control the outlook and activities of an institution of learning. The trouble began at the University of Pittsburgh in 1929 with the compulsory disbanding of a liberal student club which has expressed radical views concerning labour and social problems. This outbreak of unorthodoxy was evidently traced back to certain members of the faculty who had shown progressive ideas of sympathy with the labour movement, and who as a consequence were either fired outright or ultimately forced to resign. The climax came with the dismissal of Dr. Ralph E. Turner, for nine years Professor of History, which roused public opinion to such a pitch that a legislative committee was appointed to investigate the conduct of the university. The

committee's findings, which were made public last September, told of the pressure placed upon the members of the faculty before their final resignation or dismissal, described the governors' interference with academic freedom and the system of tenure of the Mellon-controlled, self-perpetuating Board of Trustees. It is some satisfaction to note that the public generally, when informed of the actual circumstances, strongly disapproved of the policy of the governing body of the University. Moreover, the American Association of University Professors, claiming a membership of eleven thousand, has decided to blacklist any one of its members who accepts a position at the University of Pittsburg.

From another, and perhaps less expected quarter of the United States comes a further instance of curtailment of free speech and thought even more shocking, namely, from the City of Boston, in connection with the law recently passed by the State of Massachusetts requiring all teachers in state-controlled or endowed schools to take an oath to support the constitution and the existing social order. Two members of the faculty of Tufts College resigned on the ground that the act was a deliberate attack on academic freedom of thought and speech in the State of Massachusetts. Many supported

the position taken by the two educators, and an agitation was begun for the repeal of the law. On March 20, however, when one of the teachers—Professor Earl M. Winslow, of Quaker persuasion—appeared before a Legislative Committee in the State House to explain his position and support the movement for the repeal of the teachers' oath law as a curtailment of the rights of free speech, he was seized by a state trooper on the order of the irate Chairman, and thus prevented from finishing his plea on behalf of the very principle that his seizure had denied him. Nevertheless, as much of his speech as he was allowed to give, apparently made a deep impression on many of those present, as reported by the *Boston Herald* for March 20. Much of his address dealt with the idea that by denying free speech to teachers legislators were themselves doing more to subvert the American order than could Communist or Fascists. "To the liberal," he said, "there is little difference between the Communist and the Fascist. Both destroy liberty, and rule by iron command. Thus when you passed a law that denies liberty of conscience to teachers, or which tries to do this, you are as much Communist as you are Fascist, and you have elements of both." A significant comment on this incident was made by Professor

Gaetano Salvemini, an exile from Fascist Italy and a former member of the Italian Parliament, who is now on the faculty of Harvard University. He observed that the present Fascist dictatorship in Italy had its beginnings indirectly in a law that was almost an exact replica of the Massachusetts teachers' oath law.

All this is sufficiently disturbing to cause serious reflection, for even in Canada there have not been lacking indications that representatives of powerful business interests regard with strong disapproval the views of certain teachers with radical leanings, and would certainly support the curtailment of discussion of social and economic theories regarded as destructive to the existing order. Generally speaking, this represents a profound and disturbing change in intellectual attitudes since pre-war times, which Professor Harold J. Laski in a brilliantly written article explains as follows: "In 1914, men looked back upon the history of intellectual persecution and agreed that it was both wasteful and irrational. To-day, over much more than half the world, there is an intellectual persecution wider and more profound than at any period since the sixteenth century. The reason for this change is that, since the war, the old secur-

ities have gone, and with them, the sense of tolerance that they engendered. Men feel that free speculation calls the foundations into question, and they seek to suppress all ideas which, in their judgment, threaten the foundations. All over the world, fear, rather than confidence, is the mainspring of social action; and fear has always been the enemy of ideas."

Lack of security, intolerance and fear are the greatest enemies of democracy to-day, and by the same token they have been the principal means of exploiting the rule of Dictators. Count Sforza in his book *European Dictatorships* sums up the matter thus: "Parliamentary freedom is a form of freedom. But the essential freedom without which a people is doomed to decline is, freedom of thought, of speech, of the Press, of association." Democracy, therefore, must and can adapt its institutions to the conditions of a changing world, so that the diffusion of power shall keep pace with the rising standards of education, well-being and intelligence, and it must also continue to believe, contrary to Fascist and Communist doctrines, that no individual and no class are wise enough and unselfish enough to decide the destinies of a civilized people.

## THE A. B. C. <sup>1</sup>IN ADVERTISING

GILBERT C. CLARKE

### The Place of Reports

**A**DVERTISING has two distinct phases: the preparation of the copy and the placing of that copy before the prospective purchasers. Each phase is of utmost importance, but no matter how good the sales appeal of the copy may be, if it is not presented to the proper individuals its effect will be lost.

How can this copy be best presented? There are so many types of media available and such a multitude of units within each type that a very careful examination must be made first, as to where each of these types of media has its optimum coverage and, second, how the present or expected distribution of the product fits this coverage. After the type of medium has been decided upon, a similar study must be made of each unit in that type.

In making these examinations some standard basis of comparison should be used. The figures for these comparisons must be authentic and from some reliable and, if

possible, independent source. For the purpose of this discussion one medium only, the magazine, will be considered. All other media can be dealt with in the same manner.

The value of a magazine to an advertiser lies in its circulation—the quantity of this circulation and the quality of it. Until the last few years the quantity factor was the sole factor considered by advertisers. Quantity to them meant the actual number of copies of the publication distributed. The one and only standard of comparison was the page cost per 1,000 readers. Today, however, quantity includes two additional factors which are as important as the original, if not more so. These are first, where the circulation goes, and, second, how it was obtained.

Quality of circulation—reader interest or degree of thoroughness with which the publication is read—is not so easy to determine. Advertisers, and to some extent, publishers themselves, have tried to analyze the quality of circulation. For any publication appealing to

<sup>1</sup>Audit Bureau of Circulations.



the mass market, however, it is still impossible to draw up any set of factors which constitute reader interest. Such things as continuance or renewal of circulation may indicate reader acceptance but they are, after all, insecure bases for comparisons. Of necessity, then, prime attention must be focused on the quantity factor.

As has been said, the figures used in any comparison must be authentic and from an independent source if possible. The greatest criterion of authenticity is an audit report. The wider the scope of the audit the more varied and hence more useful can be the comparisons.

In Canada there are two types of audit reports for publications: those presented by Price Waterhouse & Co. on the circulation of certain business papers, and those presented by the Audit Bureau of Circulations on the circulations of numerous newspapers, magazines, farm and business papers. Of these two the latter type is much more comprehensive.

#### **The Audit Bureau of Circulations**

The Audit Bureau of Circulations is an international organization formed for the sole purpose of auditing the circulations of all classes of publications with wholly paid circulations. Its membership is divided into three divisions: pub-

lishers, advertisers and advertising agencies. Control of the Bureau rests in a board of directors composed of representatives of each division of the membership.

In Canada there are approximately 120 publisher memberships, 13 advertiser memberships and 18 advertising agency memberships. Of the publisher memberships, newspapers are represented by about 80. Revenue for the operation of the Bureau is derived from the fees assessed upon the members. Publishers' fees vary with the total circulation of the publication. Advertisers' fees are based on three classes: national advertisers, paying the largest fee; associate advertisers, paying a much smaller fee; and local advertisers, paying a fee depending upon the number of reports of circulation they request from the Bureau. Advertising agency fees are based upon the total volume of business which they conduct over a given period.

Any recognized advertising agency or advertiser is eligible for membership in the Bureau. Similarly, any publisher with a wholly paid circulation is eligible whose books are in such a condition as to supply the complete information required by the Bureau for at least one full year previous to the audit date.

The Audit Bureau maintains a staff of auditors who make a com-

plete audit of the circulation records of each publisher member once a year. The report of this audit is sent to the headquarters of the Bureau in Chicago, where it is published in booklet form. Every member of the Bureau, except the local advertiser, receives a copy of each report for the district and division of which he is a member. For example, each Canadian advertiser member receives a copy of each Canadian audit of the Bureau. For their personal use publishers may secure extra copies of their own report at a fixed cost per report.

In addition to the regular reports, each publisher completes, twice a year, a form supplied by the Bureau called a Publisher's Statement. This statement follows closely the regular audit report and is itself subject to audit so that the information contained in it is reliable. These Publishers' Statements are also published by the Bureau and circulated in the same manner as the Audit Report.

The Audit Reports are divided into such classifications as newspapers, magazines and business papers. Although they differ in content for the various classifications, the reports within each classification are uniform. For example, newspaper reports show the circulation of the newspapers by cities and towns, whereas magazine circulation is shown only by

Provinces. In each classification, however, the information shown is that which is most required by the advertiser.

### The Audit Report

An audit report for a magazine discloses the following information, divided into four main sections. The first section, comprising the first page, analyzes the total distribution of the publication to determine the net paid circulation and then subdivides this net paid circulation by population groups, mail subscriptions and single copy sales. These figures are based upon *averages* over the audit period. The second section of the report contains a detailed geographical distribution of *one* average issue of the publication. The third section analyzes the channels of single copy sales. The fourth section analyzes the methods employed for securing subscriptions during the audit period. Complete explanatory notes are included to aid the interpretation of each item.

Too many, however, consider the total net paid circulation figure shown on the front page the only import figure in the A.B.C. report. The maximum utility, in reality, lies in the many bases of comparison contained in the body of the reports. To illustrate the various uses of these, the six so-called Na-



tional magazines are chosen. These magazines have nation-wide circulation, appeal to the same mass market and are quite uniform in subject matter and price. They are Canadian Home Journal, Canadian Magazine, Chatelaine, Liberty Magazine, MacLean's Magazine and National Home Monthly. It must be borne in mind that each comparison must be interpreted in terms of the product which is to be advertised. A condition that might appear unfavourable for one product might be ideal for another. In no case is there any attempt to evaluate the magazines, but only to show the method by which this may be done. All figures are from the A.B.C. Publishers' Statements, June 30, 1935.

The first step is to determine which type of medium should be used. Will magazines give the required coverage? Chart I. shows the geographic distribution of the combined circulation of the six publications under consideration in the five major markets of Canada.

If the product to be merchandised has 50 per cent. of its sales in the Maritimes, the distribution of magazine circulation would obviously preclude their use in anything but a role supplementary to that of some other type of medium. A similar analysis of the other types of media would disclose the one more adapted to this product.

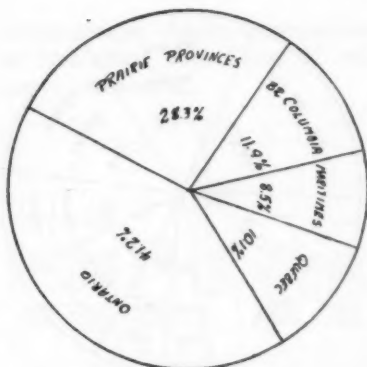


CHART I.

Geographic Distribution of Circulation of Six Canadian Magazines

If it is decided that magazines offer the correct geographical coverage, the next step is to discover in what size communities the product has its biggest appeal. Chart II. discloses the percentage of the circulation of these magazines which is represented by each population group.

The largest unit of magazine circulation occurs in those places with a population under 500, although approximately 50 per cent. of the magazine circulation is in places with over 25,000. If this distribution of circulation coincides with the distribution of the product, individual magazines must now be analyzed.

The first question, naturally, is which magazine has the largest circulation. Chart III. expresses



CHART II.

Distribution of Circulation by Population Groups for Six Canadian Magazines

this circulation for each magazine as a percentage of the total circulation of the six.

MacLean's Magazine, with over 20 per cent., has the largest circulation, while Canadian Magazine, with slightly less than 10 per cent., has the smallest. These circulation figures, however, must be interpreted in terms of the advertising rate, which tends to equalize the page cost per 1,000 readers. Inasmuch as this is not a direct comparison based upon the A.B.C. statement, it will not be considered here.

In order to compare the six publications on a uniform basis it is expedient to omit the numerical circulation figures and present the information as percentages of the totals for each publication.

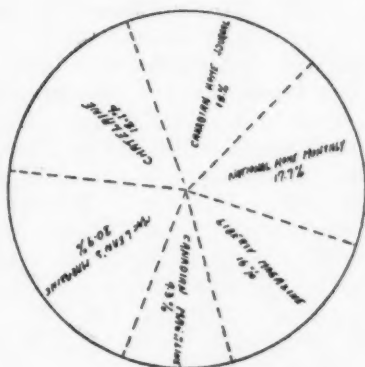


CHART III.

Individual Percentage of Total Circulation of Six Canadian Magazines

To repeat, it was said in the second paragraph that after deciding upon the type of medium to use, a similar study should be made of each unit within that type. Chart IV. presents the geographical distribution of circulation of each of the publications in the five major markets. Each column represents the total net paid circulation of the magazine.

Quebec, because of its French population, and the Maritimes, because of its paucity of population, have the weakest magazine coverage. Ontario and the Prairies absorb the majority of the circulation. An interesting comparison can be made between Charts IV. and I.

Chart V. shows the breakdown of circulation of each of the six

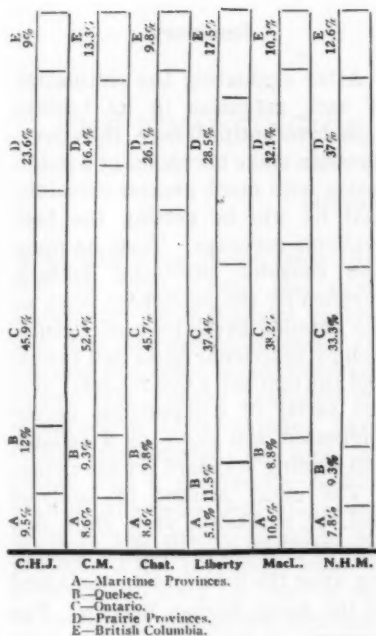


CHART IV.

Geographic Distribution of Circulation

publications into the major popu-

Now, if the results of these two charts are compared with the distribution of the product, the publications can easily be ranked as to their effectiveness in giving the coverage desired. Up to this point, however, it has been assumed that the circulation of each publication is of equal value. But how was this circulation or coverage obtained? A comparison over a period of three to five years should be

lation groups. Again, a comparison of this chart with Chart II. will prove interesting.

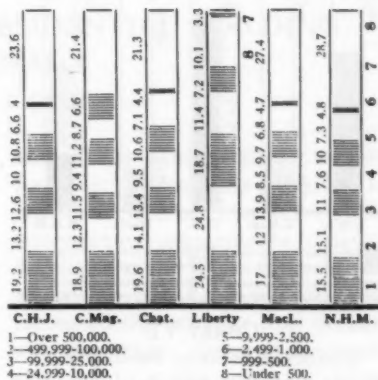


CHART V.

Distribution of Circulation by Population Groups

made to determine how the present circulation has been built up. As methods vary little from year to year, however, for the purposes of this discussion only one period will be examined—the six months ending June 30, 1935. This comparison is based upon the methods of securing subscriptions.

Each block in Chart VI. represents the total subscriptions received during the period. The shaded sections represent the percentage secured with special inducements and the unshaded sections the percentage secured with no special inducements.

The item "Subscriptions secured at reduced prices" is composed of

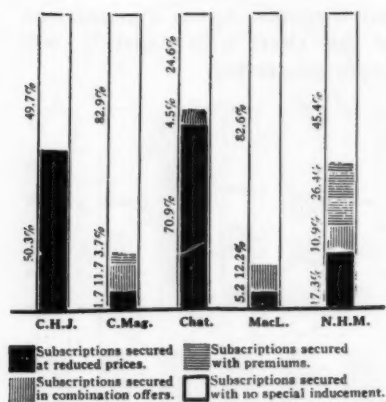


CHART VI.

## Methods of Securing Subscriptions

those subscriptions received as a result of special Christmas offers. Whether such subscriptions are as good as those secured with no special inducement is a matter for each individual advertiser to determine for himself. Some claim they represent "the class" of the subscriptions since these subscribers think well enough of the publication to give it for a present. Others claim they represent one of the poorest types of subscriptions since the magazines are so cheap to give yet so large in bulk. Similarly, "subscriptions in combination offers" and "subscriptions with premiums" are worthless or valuable depending upon individual judgment.

## Summary

After evaluating the circulation of each magazine in its various aspects as outlined here, the advertiser can make his choice of a publication with much greater certainty that he will be getting the best available coverage. True, he must also consider additional factors, supplied by the publishers, such as the detailed breakdown of circulation by individual cities and towns, and the cost per 1,000 readers. But the series of comparisons herein suggested will serve as a reliable and guiding standard for his choice.

The exact method of analysis will, of necessity, vary from one type of medium to another, depending upon the information contained in the Audit Bureau Reports. For example, in the case of newspapers such factors as "circulation within the city proper," "circulation within the trading area," "rural circulation," "mail subscriptions," etc., are all important guide posts to the prospective advertiser. The principle, however, of using every available piece of information supplied by the Audit Bureau of Circulations is applicable to all types. The reports of this organization are, in more ways than one, the "A.B.C." of advertising.

## THE FINANCING OF RESIDENTIAL BUILDING IN CANADA

MILLARD J. GRANT

**D**URING the period from 1920 to 1928, with the rapid growth of our industrial centres and the increasing demand for housing and office accommodation, money was readily available for construction of all kinds. Land values appreciated to such an extent that a prospective builder needed little more than his investment in the site to complete his project. First mortgage loans of from fifty to sixty per cent. of the value of the completed structure were competed for by the lending institutions and private capital was advanced in excess of those percentages for first mortgages or second mortgages at high interest rates. Home builders could complete a dwelling and sell it with a sufficient first payment to realize upon their own investment, which frequently consisted of nothing more than the land and their profit for the construction.

With the depression and the resultant lower wages and unemployment, those who had been

anxious to become home owners found it increasingly difficult to pay their interest charges. Local improvement assessments in newly developed areas where large blocks of money had been advanced so increased the tax bills that default was inevitable. Demand for property fell to a new low and values depreciated so quickly and to such an extent that small equities of home buyers were soon wiped out entirely, and they had nothing to do but give up possession or be evicted. Lenders who had originally considered that they were making conservative investments became aware that these were alarmingly close to the probable values of the properties securing them, and that it was difficult to rent a surrendered property for sufficient to pay the bare carrying charges.

Various forms of moratorium legislation added to the worries of mortgagees. As a general rule they had found it advisable to encourage an industrious buyer to

attempt to carry on, rather than to take possession for the sake of getting a low rental, and proceedings were resorted to only in cases where the occupant refused to make any reasonable payments. Such legislation, so far as it has given occupants a right to ask for extensions of time for payment of interest and taxes, has proved a hardship upon indulgent lenders, who have thus been forced to provide housing, in many cases at a direct loss, for those who have little chance of being able to redeem even over a long period. For, although in theory an occupant has always been supposed to pay all necessary carrying charges, the experience has been that payments are irregularly made and the tendency of the courts has been to be lenient even at the expense of the mortgagee. Under these circumstances, new lending practically stopped. Investors were discouraged with the prospects of the mortgage market and quickly turned to bonds, in which yields were then comparable, the principal seemed more secure and the necessity for close supervision was less.

Some mortgage money has been available at all times, but never in quantity until the summer of 1935. This condition was general in all municipalities even though the investors suffered their greatest

losses in the larger industrial centres where quick expansion had not been sound, for their experience in such places had taught them caution with respect to all localities. Since the summer of 1935 the construction trade has shown a marked improvement. The lowering of interest rates on bonds has made mortgage yields attractive again and mortgage loans in conservative amounts have been made fairly freely by institutions to selected borrowers. There is still no quantity of private funds available, since principal repayments during the last seven years have been too small to produce much capital for reinvestment. This freeness of institutional money has undoubtedly stimulated construction. Another factor has been the demand in some centres for more modern housing, because construction has been at a standstill for so long.

Realizing the need of encouraging families to own houses of their own, thereby providing employment in the building and supply trades, Parliament at its last session passed The Dominion Housing Act, under which adequate funds may be furnished to any person who is anxious to build a home of his own and can afford to do so. The Act is predicated upon the principle that a person in ordinary circumstances can afford to build if



he has sufficient to contribute to the financing of at least one-fifth of the cost of the operation. Lending institutions are restricted by various statutes governing their investments to loans of amount bearing a fixed percentage to the value of the security on which they are made. These percentages are not sufficient in the majority of cases to permit persons with limited capital to complete their projects, and for that reason it became necessary to propound a scheme whereby the additional capital could be provided. The plan set up in the Act provides that where an institution is willing to make a loan to the extent which it is permitted by statute to do, the Government will advance an additional twenty per cent. of the value of the property offered as security to the lender. In this way loans of from seventy to eighty per cent. of that value can be obtained.

In passing the Act, Parliament doubtless considered that lenders would be satisfied to make loans if they were afforded the protection which past experience had taught them was necessary in bad times. Lenders had learned that the physical security was a thing on which they could estimate the amount which they might be prepared to advance, but that they must, for safety, look behind that

and to the financial responsibility of the borrower or of the person who would eventually become the occupier of the premises. Too often they had found that the builder had sold to a person who was convinced in one way or another that he could afford something for which he could not pay, and who found after a few short months that he had assumed too large an obligation. If a recurrence of the conditions which have existed over the last seven years was to be prevented, provision had to be made to prevent houses built under the Act from getting into the hands of persons who are financially irresponsible. To this end the assistance of the Act is given only to those who have a good credit reputation and are reasonably assured of sufficient income to meet the payments falling due after the house is completed.

Any lending institution which is approved by the Government and has power to loan money on the security of real property, may contract with the Minister of Finance to make the contemplated loans. The Minister, in making such contracts, will take into consideration the necessity or lack of necessity for further construction in the locality where the institution proposes to operate under the law. The lender may thereafter arrange

the loans as it sees fit and call upon the Government to contribute towards the advances up to twenty per cent. of the cost of the construction. Similarly municipal housing commissions may make arrangements for joint loans.

Following the trend towards lower interest rates, the loans bear interest at five per cent. The Government's proportion is advanced through the primary lender, which remits to the Government three per cent. per annum on the amount so advanced; this gives the primary lender a yield of slightly more than five and one-half per cent. on its own advance. In this way, the institutions obtain the approximate current rate for their money, the Government can equalize the interest which it must pay on moneys borrowed for such purposes, and still the borrower pays less than he would have had to pay for even a smaller loan obtained any time within the last twenty years. It might be argued that the Government is asking too little as compared with the yield to the other lender, but it must be borne in mind that the institutions have all the work of bookkeeping and collection.

Quick repayment of the principal sum is not required, but may be made by the borrowers if desired. The loans are made orig-

inally for a ten-year period and the contracts provide for a renewal for another ten years if the lender is satisfied with the previous payment record. Principal is amortized over the twenty-year period so that by regular monthly payments the entire sum will be repaid at the expiration of that time. In addition, the borrower must include in each monthly payment one-twelfth of the estimated yearly taxes on the property, which the lender in turn pays on their due date. Yearly adjustments are made to take care of any under or over-payment towards such taxes. This undoubtedly adds to the bookkeeping which the lenders must do, but is particularly advantageous from their standpoint as it prevents an accumulation of arrears. As far as the small borrower is concerned, it is a splendid thing for him to have a small fixed monthly amount which he must budget for rather than huge amounts for which he has not made adequate provision.

The types of buildings sought to be promoted are multiple family houses for rental and detached houses for the occupancy of the borrower or for sale to an occupant who will assume the loan. Where a house is built for occupancy by the borrower, the loan is advanced, after he has contributed his full proportion to the financing, as



the work on the building progresses. If the house is being built for sale, one-quarter of the amount of the loan is held back by the lender to be advanced when the house is sold to a purchaser satisfactory to the mortgagee. Mortgagees will doubtless require that such persons have capital with which to pay off the builder's interest and have a favorable prospect of meeting regularly the payments falling due. Loans on multiple houses built for rent are not fully advanced until the premises have been leased to the satisfaction of the lender. A similar amount as in the case of a house built for sale is withheld pending rental of nine-tenths of the building.

Plans and specifications of the contemplated work must be submitted at the time application for the loan is made. This application must be made before the work is started at all. Certain minimum standards of construction have been set up by the Economic Council which make for a better building at low cost and the lending institutions must supervise the work as it proceeds to be sure that such standards are upheld and that the materials used comply with specifications prepared in a similar manner. These provisions give the borrower, without cost, the benefit

of careful study by competent architects and engineers advising the Economic Council, and assure the lenders that the advance is spent to good advantage and that the building will not depreciate because of poor workmanship or faulty materials. In addition, the lenders may in this way prevent duplication of exterior design where a number of buildings are being erected in one district.

On the whole the Act should prove very satisfactory to both lender and borrower. The borrowers' equity in a building is increased from month to month by the payments of a prearranged amount which he must, at the outset, satisfy the lender of his ability to make. On the other hand, he gets his money from a lender who is reputed to be fair and reasonable, at a rate never available to him before. The lender is protected by new schemes for supervision of the investment throughout the entire period of indebtedness.

The statute also provides a means for study and report by the Economic Council on problems relating to clearing and re-development of overcrowded urban areas, and the necessity for establishing housing schemes in various localities to construct, with state aid, premises to be leased to low wage earners. What may be done along

these lines within the next few years is a matter for conjecture only; it probably will depend to a large extent upon the attitude of individual municipalities towards such proposals. But it is another definite indication that Parliament is awake to the need for permanent advancement of social conditions on sound economic principles.

## EARLY HISTORY OF SMALLMAN & INGRAM, LIMITED

J. LAURENCE DAMPIER

### Early London History

**T**HE year 1936 marks the One Hundred and Tenth Anniversary of the founding of the community which is now the City of London. In the year 1826, after the site had been surveyed for settlement purposes at the command of Governor John Graves Simcoe, the first settler, one Peter McGregor, erected the first home. The spot was where the two branches of the river Thames meet and was known as "The Forks." The following year a courthouse and jail were erected to serve a community which was growing rapidly. The settlement became a village in 1835 and in 1847 the Town of London, with a population of over 2,000, was incorporated. While London was a town, it developed rapidly; brick houses were erected, one of which was for London's first storekeeper, Mr. Denis O'Brien. St. Paul's Cathedral was built in 1846. "These early townsmen were not timorous dealers — they did things." For that reason London became a thriving city in 1855 and

real development began. Many large industrial enterprises were started, among them being McCormicks, Carlings, Labatts and several large oil refineries.

The enterprise with which this paper is concerned is that of Smallman & Ingram, a partnership formed by two Londoners to carry on the business of "Retail Dry Goods Merchants at the City of London." This partnership was established in 1877, twenty-three years after London became a city. At that time horse cars were used on the street railway, which was not electrified until 1895, the streets were dimly lit by gas lamps, the roads were poor, bustles were the order of the day. Although advancing rapidly as a commercial centre, London in 1877 was distinctly old-fashioned when one compares it with the London of today.

### The Founders

As the name implies, two men were responsible for the founding of this well-known department store. Mr. John Bamlet Smallman,

an Irishman who came to Canada when he was quite young, received his early training and experience in the dry goods business as an employee of the firm of George D. Sutherland, a retail dry goods establishment located on the south side of Dundas Street. He was twenty-eight years of age when he entered into partnership with Mr. Ingram in 1877. He died in 1916, having served the business for thirty-nine years. Apart from his work in merchandising, Mr. Smallman acted as the bookkeeper and treasurer of the firm. The early books of the partnership, now the property of the Lawson Memorial Library, give a beautifully and accurately kept history of this interesting retail business.

Mr. Lemuel Hill Ingram, father of the present president of the firm, was a Canadian and six years younger than his partner. He received his early education at the old Union School and then entered the services of John Green & Co., wholesale dry goods merchants. Here he became a pupil of John Green and learned the dry goods business thoroughly. When he was twenty-two years of age he entered into partnership with Mr. Smallman. Mr. Ingram was primarily the merchandising manager of the business and devoted his efforts to carrying out this phase of the partnership with the assistance

of his partner. Mr. Ingram died in 1901 while still in his prime after having served as a member of the firm for twenty-four years. It was the death of Mr. Ingram which terminated the original partnership of Smallman & Ingram. The business was then operated as a proprietorship by Mr. Smallman until 1908, when, believing that certain of the faithful employees should be allowed to participate in the success of the firm, he formed the limited liability company of Smallman & Ingram, Limited, and distributed shares to some forty of the employees.

#### The Founding

Both Mr. Smallman and Mr. Ingram were young Londoners who ventured into business on their own account with confidence and ability that overcame every difficulty. The two men probably became friends through their church affiliation, both being Methodists. As friends, they no doubt had discussed the business of distributing dry goods and because the one was trained as a retailer and the other as a wholesaler, they were probably brought to see each other's point of view and were later able to visualize many opportunities for improving the status of the dry goods business in the City of London. The history of the firm illustrates conclusively that these two men were responsi-

ble for making many improvements which were advantageous to their business. Certainly both men were keenly interested in the dry goods business. The partnership was conceived as an ideal agreement from a business and social standpoint, the two men being singularly adapted to each other and to the business in which they were engaged. Their business was formed to fill the needs of a growing and thriving community and as the city grew, so did their business expand to keep in step. That the expansion was never beyond the point warranted by the city's growth is an indication of the sound business policies which were adopted by the firm.

The partnership agreement was not drawn up and witnessed until some five months after the store was opened on September 8, 1877. The agreement was made for a period of ten years, but when it lapsed in 1887 it was not renewed, and the partnership continued to operate under a verbal contract in the same manner that it had begun. This fact illustrates how completely in agreement the two men must have been and how determined they were not to let the success of their enterprise be jeopardized by any dissensions of its owners; selfish motives did not exist.

The original books portray the

feeling that both partners were sure that their enterprise was going to be a success. This is indicative of the confidence which the two men had in the future of the City of London. A newspaper article states that both men were fine Londoners. Another interesting incident which demonstrates that the two men were extremely interested in the welfare and development of the city is that when the Bank of London was established in the city by local interests in 1883, the firm moved its account from the Federal Bank to the new institution. The relationship with this bank terminated four years later when it failed. The account was moved to the Bank of British North America, which later became a part of the Bank of Montreal.

Three thousand dollars was the original capital invested by the partners in equal amounts of fifteen hundred dollars. This sum represented the total savings of the two partners. They had faith in the future of their enterprise, but it is unlikely that they anticipated it would become the large and successful organization which today it undoubtedly is.

#### Early History and Policy

The original store was only sixteen and a half feet wide and was situated on the present site of the

extreme easterly portion of what is now the Woolworth store. The property was owned by John Coote, to whom they paid rent of \$100 each month. Six employees were prepared to wait on the public on September 8, 1877. The chief of these was James Smith, witnesser of the partnership agreement, who was in the firm for many years. He received as much return for his services as the partners allowed themselves in the first few years. The early records show very little turnover in the staff, a point which indicates that these clerks were satisfied with the attitude which their employers took toward them. The sales of the first day amounted to \$113.96. This was really a large amount for a busy Saturday. From the early beginning a large portion of the business was done on a credit basis, but after these accounts became burdensome a cash sales system was adopted upon the advice of Mr. Smallman. This method of doing business was accepted by the whole community. Later the plan was modified and regular customers were allowed the privilege of having a charge account. Some of the names which appear on the books as early as 1877 and 1878 include, Josiah Blackburn, owner of the London Free Press; Dr. R. M. Bucke, superintendent of the Ontario Hospital; James Duffield, brother of the founder of the City

Gas Company, and other well-known early Londoners.

There was only one department in the first store, dry goods made up chiefly of mantles and millinery. Their early advertisements stressed the economies of purchasing these articles at Smallman & Ingram. As far as advertising is concerned, the partners used this method of reaching the public until 1880. After this time no advertisements appeared till some ten years later. Neither of the partners had any faith in this mode of attracting customers to their store. The advertising copy of these early years in the London papers was not of the same standard which it is today; at that time it had little or no value because it did not give any definite or worthwhile information to the public. Later, the Smallman & Ingram advertisements began to appear in much the same fashion as at the present time. They became a real shopping guide and a service to the buying public. To illustrate the type of copy, it is interesting to note that their advertisements always presented the daily weather report. The copy also had a picture of the store superimposed on a globe to illustrate the fact that their buying markets were spread even to other continents.

Although there was a minor business depression during the

early years of the history of this business, the total sales of Smallman & Ingram increased each year over the preceding year. In only one year prior to 1927 was this fact not true. In the first ten years sales increased from \$12,000.00 to \$112,000.00! These substantial increases in sales are synchronous with an increase in the population of the city, a sure sign of the endorsement and appreciation of the store policy and modern methods by the citizens of London and the surrounding districts. The progress was slow at first, but it was also steady and sure.

A further analysis of the original books shows that, although the expenses of the firm (made up chiefly of wages, rent, taxes, insurance, freight, wear and tear, and incidental items) increased in this period, they did not increase at the same rate as sales, a proof of good management. The fact that the partners insured the plate glass windows of the store and certain other valuable fixtures illustrates how completely and thoroughly they operated their firm, because insurance at that time was a relatively new device. In only one year, 1883, were the wages lower than in the preceding year. This item of expense increased appreciably, although the number of employees remained at ten for the greater

part of the first sixteen years, for which definite figures are available. The fact that the inventory shown in the original books at the end of the year had increased with the sales, but to a lesser extent, illustrates the sound merchandising policy of the firm. They did not allow burdensome inventories to accrue and thus were able to keep merchandise up-to-date, an important consideration for any successful retail establishment.

Mr. Smallman allowed depreciation of ten per cent. for "wear and tear" on shop furniture. These items included sewing machines, awnings, equipment, gas fixtures for lighting, shop windows, fixtures and counters, and smaller items.

That the business developed more quickly than the partners had expected is shown by the original partnership agreement whereby each partner was to withdraw as salary only \$600.00 annually. After the first year this amount was increased to \$1,000.00, at which figure it remained for at least fifteen years. The men were also able to withdraw substantial profits of \$5,000.00 each in 1887, 1888, 1891 and 1892. Compare these figures with the original investment of the two men of only \$3,000.00.

In 1882, five years after they began business, the partners made the first of many buying trips to



England and later to the Continent. The fact that they spent time and money in doing this illustrates that they were trying to bring to London the best possible goods at the most satisfactory prices. The first trip was made by Mr. Smallman and each year after, until Mr. Ingram's death in 1901, the partners alternated in making the trip. These trips resulted in extensive purchases. Duties in 1882, the year in which the firm took the title of "Importers," amounted to \$4,182. The cost of each trip, which in the early years was only \$500.00, was added to the Merchandise account. In the first two years, strangely enough, it was deducted from the annual salaries of the partners in amounts of \$250.00 each. After 1901 buying trips were made every year, excepting from 1916 to 1918, when the war situation made them inadvisable.

At no time did the firm encounter financial difficulties. On occasions the partners borrowed money from the bank with which they dealt, in order to finance purchases, but these notes were always paid before or at maturity. Good management and sound merchandising policies were important factors. Books were carefully kept and statements prepared at the close of each fiscal year on January 31st. Thrift was an important policy of the firm. Discounts on the pur-

chases made by the partners were taken at every opportunity. This policy resulted in savings of \$1,100.00 in 1878, \$1,500.00 in 1879, \$1,700.00 in 1880, \$2,100.00 in 1881, and \$2,200.00 in 1892. These savings enabled the partners to offer their goods to the public at prices lower than would have otherwise been possible.

The first important expansion of the firm took place in 1892. The figures for the few years prior to this date demonstrate clearly that the business had expanded beyond the capacity of the premises. Sales had more than quadrupled during the first fifteen years; additions had been made to the store fixtures; the inventory in 1892 was three times that of 1879; the staff of six was enlarged to ten in 1889 and to 12 in 1890. The population of London had doubled since 1877. Smallman & Ingram were forced to expand their premises and adjust their business to meet the increasing needs of a well-established and thriving commercial centre. The first purchase of real estate was for that part of the present store which is now the extreme westerly portion. This increased the frontage by nineteen and a half feet. In 1897 the store was expanded to include three store fronts. This expansion, completely financed by the partners, marked the first great development of the firm towards its

present size. The increase in size of the premises made it possible to add new departments to the firm. In 1897 a boot and shoe department was added, but was later discontinued when found to be unprofitable. In the same year toytown was added; it has become an important part of the firm's Christmas trade. It was not until 1908, when the present store was erected, that other departments were added.

Smallman & Ingram were pioneers in London of merchandising policies which are now in widespread use. They were the first to adopt the cash policy which has already been mentioned. In 1900 the partners adopted the policy of closing the store early on Saturday rather than staying open until ten or eleven o'clock in the evening. At first the store remained open only till six, but this hour was later changed to five-thirty. This policy was appreciated by all the employees, had no ill effects on the business and was largely adopted by other firms. A newspaper account of the early closing states that when Smallman & Ingram adopted the policy, a "near sensation" was created in the city. Improved results were obtained from an even more loyal staff of employees.

#### Stated Policy

An important contributing factor

to the success of this retail enterprise was that the partners, from the early beginning, based their methods on a stated policy. This was unusual for organizations of this kind. Not being over-ambitious, but satisfied to do the right thing and await results, it was decided that their business policy should be founded on the Golden Rule, "Do unto others as you would have them do unto you." This policy has been strictly adhered to from the beginning down to the present time. Today, a more detailed and elaborate statement of the policy governs the actions of the firm. Each of these details, however, may be traced with little difficulty to the policies which were inaugurated by the original partners. Smallman & Ingram was one of the first stores, if not the first, in London to adopt the one-price policy. Prior to the time of the founding of the store, it was customary for buyers to bargain about the price of articles which were displayed in local stores. Rarely, if ever, was the price clearly marked on the articles. When Smallman & Ingram opened their store, the one-price policy prevailed and it was not long before it was accepted by other merchants in the city. A definite step toward improving merchandising policy in London had been made. Smallman & Ingram were

the first merchants to stop having a clerk selling wares displayed outside the store front. The results of this move were profitable and the policy was generally accepted. From the early beginning the partners adopted the policy of refunding money on returned purchases or exchanging other goods for this merchandise. This policy is still followed by the firm. The delivery of goods was made a special feature from the start, this being one of the first stores in London to make use of the general delivery service. An even more interesting point is that Smallman & Ingram was the first store in Ontario to offer, without any restrictions whatever, to pay the carrying charges on all mail orders, no matter how small the order.

The important thing to remember is that this store was pioneering these merchandising policies; it was not necessary for them to put them in force because of competitive conditions. On the contrary, they arose out of a natural desire of the firm to serve the public in London and vicinity. The firm expanded with the city; the growth of the two was simultaneous. In so far as the firm depended upon the city for its existence, the partners adopted the policy of providing a modern and practical store where the citizens might be served in a manner which would be appreciated

by the majority of them. The development of the enterprise indicates that they were unusually successful in putting this policy into effect.

#### Later History

The later history of the firm, since the termination of the partnership in 1901 on the death of Mr. Ingram, is one of development and growth. From 1901 to 1908 the business was operated as a proprietorship by Mr. Smallman, who acquired control of his late partner's share. It was in 1907 and 1908 that the present building was erected to take care of the needs of increasing business. The old building was demolished and evacuated and the present one erected and entered without the loss of one day's business. Many new departments were added and the firm became known as a department store. The number of employees had increased from six in 1877 to one hundred and ninety-eight in 1907 and later to over four hundred, an indication of success and growth.

Other important developments were made in later years. The modern delivery service was established. The mail order business was expanded and a catalogue was issued for the first time in 1911. After a number of years these catalogues were discontinued. Buying trips to Europe now included countries other than England.

Later, foreign buying offices were established in London, Paris and New York City, and staffs maintained in order to facilitate buying in foreign markets. Many other incidents of development could be noted here, but they are too numerous to be included.

In 1916 Mr. Smallman died, leaving behind a business which will always remain a monument to the

resources and vision of himself and his partner. Mr. Gordon Ingram succeeded him as president of the firm and is in that capacity at the present time. The business has gone far since that Saturday morning in September, 1877, when the two young men opened the door of their small store, but the development of the store has always been parallel with that of the city itself.



